

VZCZCXRO2187  
PP RUEHPA  
DE RUEHOS #0644/01 2671520  
ZNY CCCCC ZZH  
P 241520Z SEP 07  
FM AMCONSUL LAGOS  
TO RUEHZK/ECOWAS COLLECTIVE PRIORITY  
RUEHUJA/AMEMBASSY ABUJA PRIORITY 9202  
RUEHC/SECSTATE WASHDC PRIORITY 9430  
INFO RUFOADA/JAC MOLESWORTH AFB UK  
RUEKJCS/SECDEF WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAIIA/CIA WASHINGTON DC  
RHEFDIA/DIA WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000644

SIPDIS

SIPDIS

DOE FOR GPERSON, CGAY

E.O. 12958: DECL: 09/24/2017

TAGS: [EPET](#) [ENRG](#) [PGOV](#) [NI](#)

SUBJECT: RUMORS SURFACE ABOUT FUTURE OF NIGERIAN LNG PROJECT

LAGOS 00000644 001.2 OF 003

Classified By: Acting Consul General Donald McConnell for reasons 1.4 (B) and (D)

11. (C) Summary: The head of a major gas project in Nigeria says there are indications that plans for the OK liquefied natural gas (LNG) plant will not proceed. He also said new gas tax legislation could cripple future gas exploration and production in Nigeria. A Shell managing director reports that announced reforms to Nigerian National Petroleum Corporation (NNPC) have paralyzed the organization and no new contracts are being signed. Local oil executives agree that the situation in the Delta is at a turning point, but are unsure of which direction it will take. End Summary.

-----  
Is OK LNG Really Okay?  
-----

12. (C) During a side bar meeting with Econoffs after a larger gathering of local oil executives, Martin Hutchison (strictly protect), the Managing Director of Brass LNG told Econoffs that he had participated in an informal meeting between the Deputy President of the Nigerian Senate, Ike Ekweremadu, the Chairman of the Senate Gas Committee, Patrick Osakwe, and other legislators after the Gas Committee's inaugural session. The post-session meeting took place in the office of the Deputy President and Mr. Hutchison was the only non-Nigerian present. He said when talk turned to the OK LNG plant planned for construction in Ondo State, the legislators began to smirk and referred repeatedly to the project in the past tense. The clear impression he received was that the legislators viewed the OK LNG plant as a pet project of former president Obasanjo and now that he was no longer in power, construction on the facility may not proceed. Hutchison believes Chevron would be in serious trouble without OK LNG, having no other significant outlet for its gas besides the troubled West African Gas Pipeline (WAGP). (Note: The OK in OK LNG is short for Olokola, the location of the facility in Ondo State. Hutchison said a joke amongst industry insiders was that OK actually stood for Obasanjo and Kupolukun, the former Group Managing Director of NNPC. End Note.)

13. (C) When asked about the real future of gas production in Nigeria, Hutchison, a 30-year industry veteran, said he thought expectations were wildly optimistic. He noted that

most onshore gas was associated and would not really be available until the oil reserves were depleted since that gas would be needed for re-injection as the oil fields aged. The big offshore gas fields he said were mainly in deep-water and therefore too expensive to develop and produce at current prices without significant recovery of condensate. According to Hutchison, Nigerian government policies on domestic gas prices are holding back real market incentives to develop gas in Nigeria.

-----  
Tax Legislation Could Threaten Nascent Gas Industry  
-----

14. (C) Hutchison also voiced serious concern over the Natural Gas Fiscal Reform Act (NAGFRA) moving through the Nigerian National Assembly. According to him, the new legislation will not allow oil companies to offset costs attributable to gas projects against oil revenues as currently permitted under the corporate income tax law. Given the exorbitant tax rates on oil companies during high oil prices, this change in the tax law would, in his words, kill future gas projects and could impact efforts to reduce gas flaring. Brass LNG is tracking the legislation closely and is working to get a grandfather clause written for current gas projects. If that fails, Hutchison claims ongoing projects could be in jeopardy. As an aside he noted that Brass go/no go investment decision point was around \$500 million. Hutchison was unsure of prospects for NAGFRA or whether efforts to insert a grandfather clause enjoyed any support in the National Assembly.

-----  
NNPC Described as Paralyzed by Uncertainty  
-----

LAGOS 00000644 002.2 OF 003

15. (C) Chima Ibeneche, Managing Director of Offshore Operations for Shell Nigeria Exploration and Production Company and Jide Ayo-Vaughan, General Manager for Exxon Mobil's Erha offshore facility discussed their views on the proposed NNPC restructuring announced by President Yar'Adua. While both welcomed reform of the NNPC and agreed it would succeed in the long term, neither was optimistic the reforms would start in the six month timeframe announced by the President. Ayo-Vaughn was openly dismissive of that timeline and thought any restructuring would take two years. Ibeneche believed it could happen sooner, but both agreed legislation to reorganize the NNPC faced a battle in the Nigerian legislature, particularly the House, as competing groups lined up to protect their interests. Ibeneche complained that in the meantime, NNPC was not approving any new contracts above \$250,000 as NNPC managing directors and board members needed to approve high value contracts were either confused about their status or busy lobbying for a place in the reorganized company. He described working with NNPC as currently "impossible" and said this presents a serious problem for ongoing operations.

-----  
Community Relations Troublesome for Local Operators  
-----

16. (C) Imo Itsueli, the chairman of Nigerian independent oil company Dubri Oil Company Ltd (DOCL), described to a small group of executives and Econoffs the problem of shut-in oil for a Nigerian independent after one of the group commented that Nigerian-owned oil firms must be free from the community problems that plague the international companies. Itsueli countered that DOCL's production from wells in Rivers state was completely shut-in due to community problems. DOCL, like many small operators, uses barges instead of pipelines to transport its oil from the wellhead. Itsueli told the group that while his employees still controlled the wellheads, barge traffic was at a standstill. Barges would either be

hijacked by local groups along the creeks or forced to pay such exorbitant "tolls" that it made the oil uneconomical. When asked how he still controlled his wellheads, Itsuelli wryly noted that many of his employees were from the nearby communities, the same communities presumably responsible for holding up his barges. To Itsuelli, small operators like himself can only stay in business by finding concessions in other locations and avoiding publicity by operating them under different company names.

17. (C) The small group debated the ongoing problems in the Delta region. While of differing opinions on details, all agreed that the violence had reached a plateau, but it remained to be seen where it would go from there. Ibeneche of Shell believed that the fact that most Delta politicians were "appointed" to their positions in the last elections by PDP higher ups had broken the connection between those politicians and local gangs historically employed to rig elections and shore up support. He also thought violence directed towards the families of local elites had awakened many politicians to the real danger of the gangs. Itsuelli disagreed and said relationships were as tight as ever. All were pessimistic about near term solutions to the problem, but agreed that oil company community development efforts were not the answer. Hutchison said Brass LNG was hoping to head off problems with locals by negotiating before the project rather than waiting until project completion when the company could no longer bargain from a position of strength. Both he and Ibeneche agreed that the question of development could only be solved at the local and federal government levels and was not fundamentally solvable by private actors. As is often the case with Exxon Mobil contacts, Ayo-Vaughan downplayed any significant problems his company had with indigenous groups and he stayed largely out of the conversation on the Niger Delta

18. (C) Comment: This is the first we have heard that OK LNG may not go forward. If true, it could be a big blow to Chevron's gas operations in Nigeria. With the WAGP slow to come on-line, Chevron would be have no easy way to export its natural gas and as pressure mounts to end gas flaring, the company could be in a real bind. Legislation working its way through the National Assembly could be vital to the future of gas production in Nigeria. End Comment.

LAGOS 00000644 003.2 OF 003

MCCONNELL